

**UNITED STATES OF AMERICA
DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
WASHINGTON, D.C.**

Issued by the Department of Transportation
on the 16th day of February, 1996

Served February 23, 1996

Essential Air Service at:

ALITAK/LAZY BAY, ALASKA
AMOOK BAY, ALASKA
KITOI BAY, ALASKA
MOSER BAY, ALASKA
OLGA BAY, ALASKA
PARKS/UYAK, ALASKA
PORT BAILEY, ALASKA
PORT WILLIAMS, ALASKA
SEAL BAY, ALASKA
SAN JUAN/UGANIK, ALASKA
WEST POINT, ALASKA
ZACHAR BAY, ALASKA

Docket 42908

EAS 252

under 49 U.S.C. 4173 *et seq.*

**ORDER SELECTING CARRIER AND AMENDING ESSENTIAL AIR
SERVICE DETERMINATION**

SUMMARY

By this order we are selecting Peninsula Airways, Inc., to provide subsidized essential air service at eleven Kodiak Island bush communities in Alaska, for the two-year period beginning with its inauguration of service through January 31, 1998, at an annual rate of \$95,457. Also, consistent with the State of Alaska's consent, we are reducing the essential air service determination for Parks/Uyak to zero, thereby allowing service to lapse.

BACKGROUND

On October 27, 1995, MarkAir Express, the carrier previously selected to provide essential air service at these communities, crashed its lone float plane, and the Kodiak Island bush communities have not received reliable service since then. The carrier entered Chapter 11 bankruptcy hearings on November 17, and its parent, MarkAir, is already being liquidated. On November 29, 1995, the carrier indicated it wishes to be relieved of its essential air service obligation. Order 95-12-4, December 4, 1995, requested proposals for replacement service. We have received proposals for eight of these communities¹ from Peninsula Airways, Inc., and Island Air.

¹ Of the twelve communities for which we originally requested service proposals, Peninsula and Island Air indicate that they can provide subsidy-free essential air service to three of them -- Alitak/Lazy Bay, Port Bailey, and San Juan/Uganik if they are selected and subsidized to serve the other eight. Also, at one additional community,

We have negotiated subsidy rates with each carrier and sent the State of Alaska and the communities a summary of the proposals requesting their comments. We have now received their comments and the case may be concluded. A discussion of the proposals follows.

PROPOSAL OF PENINSULA AIRWAYS INC.

Peninsula Airways requests an annual subsidy rate of \$95,457 for service with C-206 aircraft. The peak period would consist of an 18-week period, and the off-peak period would consist of the remaining 34 weeks of the year. All service would be to the hub of Kodiak. Moser Bay and Olga Bay would receive four round trips per week during the peak period and one round trip per week during the remainder of the year. At the remaining points -- Amook Bay, Kitoi Bay, Port Williams, Seal Bay, West Point, and Zachar Bay -- Peninsula would provide two round trips per week during the peak period and one round trip per week during the off-peak. At Alitak/Lazy Bay, San Juan/Uganik, and Port Bailey, Peninsula proposes to provide essential air service on a subsidy-free basis, provided that it is selected and subsidized at the other eight communities. While these communities would not be subsidized, they would be guaranteed service consistent with their essential air service determinations, similar to the bulk of communities in Alaska.

PROPOSAL OF ISLAND AIR

The annual rate would be \$99,080 for service with C-206 and Dehavilland Beaver aircraft. The peak period would consist of an 18-week period, and the off-peak period would consist of the remaining 34 weeks of the year. All service would be to the hub of Kodiak. Moser Bay and Olga Bay would receive three round trips per week during the peak period, at least one of which would be with the larger capacity Beaver, and one round trip per week during the remainder of the year with a C-206. At the remaining points -- Amook Bay, Kitoi Bay, Port Williams, Seal Bay, West Point, and Zachar Bay -- Island Air would provide two round trips per week during the peak period and one round trip per week during the off-peak.

For ease of comparison, the following table shows the level of service provided by MarkAir Express, the previously subsidized carrier, and the two current applicants.

<u>Peak Period Service, Round Trips per Week to Kodiak, & Aircraft Type</u>			
<u>Eligible Point</u>	<u>MarkAir Express, C-185</u>	<u>Island Air, C-206</u>	<u>Peninsula, C-206²</u>
1. Parks	Two	None	None
2. Amook Bay	Two	Two	Two
3. West Point	Two	Two	Two
4. Kitoi Bay	Two	Two	Two
5. Seal Bay	Two	Two	Two
6. Port Williams	Two	Two	Two
7. Zachar Bay	One	Two	Two

Parks/Uyak, the air service has gone virtually unused. For example, during the year ended June 30, 1995, only 9 passengers used the service. The State of Alaska has agreed that the demand no longer justifies continued subsidy support for Parks/Uyak, leaving eight communities requiring subsidy supported essential air service.

² Peninsula proposes to substitute the larger Grumman Goose on a one-Goose for two-C-206 basis when weather dictates use of the Grumman Goose.

8. Olga Bay	Three	Two C-206 + 1 DHC-2	Four C-206
9. Moser Bay	Three	Two C-206 + 1 DHC-2	Four C-206
10. Alitak/Lazy Bay	Subsidy free	Subsidy free	Subsidy free
11. Port Bailey	Subsidy free	Subsidy free	Subsidy free
12. San Juan/Uganik	Subsidy free	Subsidy free	Subsidy free

Off-Peak Period Service, Round Trips per Week to Kodiak, & Aircraft Type

<u>Eligible Point</u>	<u>MarkAir Express, C-185</u>	<u>Island Air, C-206</u>	<u>Peninsula, C-206</u>
1. Parks	One	None	None
2. Amook Bay	One	One	One
3. West Point	One	One	One
4. Kitoi Bay	One	One	One
5. Seal Bay	One	One	One
6. Port Williams	One	One	One
7. Zachar Bay	One	One	One
8. Olga Bay	Two	One	One
9. Moser Bay	Two	One	One
10. Alitak/Lazy Bay	Two	Subsidy free	Subsidy free
11. Port Bailey	Two	Subsidy free	Subsidy free
12. San Juan/Uganik	Two	Subsidy free	Subsidy free

CIVIC RESPONSE

In response to our letter to the State and communities inviting their comment, we have received a letter from the State of Alaska supporting the selection of Peninsula Airways. The State indicates its preference for Peninsula for the following reasons.

“...the four times weekly PenAir proposed flights (at Olga Bay and Moser Bay) appear to provide a better service option to the communities than the thrice weekly Island Air proposal. This frequency differential is reduced when the somewhat larger capacity Island Air Beaver aircraft is considered, however we believe more frequency offsets the capacity differential. Additionally, the PenAir proposed annual subsidy at \$95,457 is less expensive than the proposed Island Air annual subsidy of \$99,080. Considering these factors, as well as PenAir’s more extensive Alaskan route structure and its code sharing partnership with Part 121 carrier Alaska Airlines, leads us to conclude the PenAir proposal is superior.”

We have also received comments from the Afognak Wilderness Lodge of Seal Bay, Alaska. In that letter, Afognak indicates that both Island Air and Peninsula Airways are excellent carriers in all respects, but recommends the selection of Island Air because Peninsula’s amphibious Cessna 206 has about 200 pounds less payload than Island Air’s straight-float Cessna 206.

CARRIER SELECTION

We have carefully reviewed the two carriers’ proposals, community and State of Alaska comments, and have decided to select Peninsula. Peninsula’s lower subsidy need clearly weighs in its favor. Although the slight difference in subsidy amounts is not decisional in and of itself, it is of greater importance than would usually be the case because of the recent budget reductions imposed by Congress. Of greatest importance, however, is the support for Peninsula expressed by the State of Alaska. As indicated by the State, while the level of service proposed by each carrier is virtually identical at most communities except for aircraft type, Olga Bay and Moser Bay would receive a fourth round trip per week during the peak season -- one more than Island Air proposes.

The Department is required to consider the applicants' demonstrated reliability in providing scheduled air service, the contractual and marketing arrangements that the applicant has made with a larger air carrier to assure service beyond the hub airport, and interline agreements, as well as the views of actual and potential users of the service³. Regarding Peninsula's reliability, as indicated by the Department in Order 95-12-6, Peninsula has maintained an unimpeachable record of sound, reliable performance throughout its system for many years. While we are confident that Island Air which has reliably operated on demand and scheduled service in these markets for a number of years would also provide good service, Peninsula has an unsurpassed record of delivering reliable service.

In the marketing area, Peninsula has a significant alliance with Alaska Airlines which includes extensive joint fares, interline tickets and baggage, and inclusion in Alaska Airline's frequent flyer program. While we acknowledge that Island Air does have some marketing ties with Alaska Airlines, they are not nearly as extensive as Peninsula Airways'. Finally, while Island Air has won the support of one of the communities, the State of Alaska representing in effect all the communities supports Peninsula Airways. In summary, for each critically important carrier selection criterion, including those which are congressionally mandated, Peninsula has at least a slight advantage. We will accordingly select Peninsula Airways.

CARRIER FITNESS

49 U.S.C. 41737(b) and 41738 require that we find a carrier fit before we pay it compensation to provide essential air service. Peninsula's fitness was last reviewed in Order 95-12-6, December 5, 1995. Peninsula is one of the larger certificated carriers in Alaska, is profitable, and has an enduring record of reliable service for many years. The FAA has advised us that Peninsula's operations are being conducted in accordance with FAA requirements and that it knows of no reason why Peninsula should not be found fit or selected to provide the proposed service. No other information has come to our attention that would cause us to question Peninsula's fitness; moreover, the carrier remains subject to the Department's continuing fitness monitoring. We therefore, find that Peninsula is fit, willing, and able to conduct the proposed essential air service to the eight subsidized Kodiak Island bush communities.

This order is issued under authority delegated in 49 CFR 1.56(i).

ACCORDINGLY,

1. The Department selects Peninsula Airways, Inc., to provide essential air service at Amook Bay, Kitoi Bay, Moser Bay, Olga Bay, Port Williams, Seal Bay, West Point, and Zachar Bay, Alaska, from its inauguration of service through January 31, 1998;
2. The Department relies on Peninsula Airways to provide subsidy-free essential air service at Alitak/Lazy Bay, Port Bailey, and San Juan/Uganik;
3. The Department amends the essential air service determination for Parks/Uyak so as not to require service;
4. The Department sets the final rate of compensation for Peninsula Airways, Inc., for the provision of essential air service at Amook Bay, Kitoi Bay, Moser Bay, Olga Bay, Port Williams, Seal Bay, West Point, and Zachar Bay, Alaska, at \$95,457 per year, as described in Appendix C, payable as follows: for each calendar month during which essential air service is provided, the amount of compensation shall be

³ See 49 U.S.C. 41733(c).

subject to the weekly and bi-weekly ceilings and shall be determined by multiplying the subsidy-eligible departures from and arrivals at the hub completed during the month⁴ by \$75.52;⁵

5. Subsidy payments are subject to the availability of funds. If the Government terminates payments because of insufficient appropriated funds, then, at the end of the period for which the Government does make payments, the carrier may cease to provide the service provided for under this agreement without regard to any requirement for notice of such cessation;

6. We find that Peninsula Airways, Inc., continues to be fit, willing, and able to operate as a certificated air carrier and is capable of providing reliable air service at these eight Kodiak Island communities;

7. We direct Peninsula Airways, Inc., to retain all books, records, and other source and summary documentation to support claims for payment and to preserve and maintain such documentation in a manner that readily permits the audit and examination by representatives of the Department. Such documentation shall be retained for seven years or until the Department indicates that the records may be destroyed. Copies of flight logs for aircraft sold or disposed of must be retained. The carrier may forfeit its compensation for any claim that is not supported under the terms of this order; and

8. The Department will serve copies of this order on the Governor of Alaska, the Alaska Department of Transportation and Public Facilities, Island Air, and Peninsula Airways, Inc.,

By:

Charles A. Hunnicutt
Assistant Secretary for Aviation
and International Affairs

(SEAL)

⁴ Departures flown with a Grumman Goose shall be assigned a factor of two, to reflect the greater cost of operating the Goose, up to the weekly ceiling.

⁵ See Appendix C for calculation.

**Peninsula Airways, Inc., Essential Air Service to be Provided to
8 Kodiak Island Bush Communities, Docket 42908**

Effective Period Inauguration of service through January 31, 1998

Scheduled Service Kodiak-Olga Bay-Moser Bay-Kodiak Four round trips per week peak and one round trip per week off-peak; Kodiak-Kitoi Bay-Seal Bay-Port Williams-Kodiak Two round trips per week peak and 1 round trip per week off-peak; Kodiak-West Point-Zachar Bay-Amook Bay-Kodiak Two round trips per week peak and 1 round trip per week off-peak.

Aircraft: Cessna 206, 4-seats. A Grumman Goose may be substituted for the C-206 and Peninsula will receive twice the C-206 rate, up to the weekly compensation ceiling.

Weekly and Bi-weekly Subsidy Ceilings and Hub Arrivals/Departures for each Point¹

<u>Communities</u>	<u>18-Week Peak Period</u>	<u>34-week Off-Peak Period</u>
Moser Bay	8, \$604.16	4, \$302.08
Olga Bay	8, \$604.16	4, \$302.08
Port Williams	4, \$302.08	4, \$302.08
Seal Bay	4, \$302.08	4, \$302.08
West Point	4, \$302.08	4, \$302.08
Zachar Bay	4, \$302.08	4, \$302.08
Amook Bay	4, \$302.08	4, \$302.08
Kitoi Bay	4, \$302.08	4, \$302.08

Rate per Departure/Arrival that can be ascribed to each point from Hub \$75.52²

Note: the carrier has been placed on notice that it may forfeit its compensation for any flights that it does not operate in conformance with the terms and stipulations of this order, including the service plan outlined above and any other significant elements of the required service, without prior approval. In addition, if for a significant period of time the carrier either does not schedule or operate its flights in full conformance with this order, the carrier may jeopardize its entire subsidy claim for the period in question. If any such changes are contemplated during the applicable period of this rate, the carrier must first notify the Office of Aviation Analysis in writing and receive approval from the Department of Transportation to be assured of full compensation. Carriers must complete all flights that can be safely operated. An aircraft taking-off and landing at its scheduled destination constitutes a completed flight. Only completed flights are considered eligible for subsidy absent an explanation for not completing the flight (such as certain weather cancellations). Flights which overfly subsidized points for lack of traffic will not be compensated.

¹ During the 18-week peak period, Peninsula will be subject to weekly ceilings, and during the remainder of the year to bi-weekly ceilings. This will afford Peninsula the flexibility to use the more expensive Grumman Goose, when necessary, without being penalized. Grumman Goose arrivals/departures are weighted more, on a two-for-one basis, than C-206 arrivals/departures.

² \$95,457 annual compensation, divided by 1,264 annual departures from and arrival at Kodiak that can be ascribed to each community, calculated as follows:

$(8+8+4+4+4+4+4+4) \times 18 \text{ weeks} = 720$

$(4+4+4+4+4+4+4+4) \times 17 \text{ bi-weekly periods} = 544$